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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

SAFEWAY INC.; WALGREEN CO.; THE
KROGER CO.; NEW ALBERTSON'S, INC.;
AMERICAN SALES COMPANY, INC.; and
HEB GROCERY COMPANY, LP,

Plaintiff,

vs.

ABBOTT LABORATORIES,

Defendant.

Case No. C07-5470 (CW)

*Related per October 31, 2007 Order to
Case No. C-04-1511 (CW)*

**PLAINTIFFS' OPPOSITION TO
ABBOTT'S SUPPLEMENTAL BRIEF IN
SUPPORT OF ITS OMNIBUS MOTION
TO DISMISS**

Date: March 6, 2008
Time: 2:00 p.m.
Courtroom: 2 (4th Floor)
Judge: Hon. Claudia Wilken

SMITHKLINE BEECHAM CORPORATION
d/b/a/ GLAXOSMITHKLINE,

Plaintiff,

VS.

ABBOTT LABORATORIES,

Defendant.

MEIJER, INC. & MEIJER DISTRIBUTION,
INC., on behalf of themselves and all others
similarly situated,

Plaintiffs,

VS.

ABBOTT LABORATORIES,

Defendant.

ROCHESTER DRUG CO-OPERATIVE,
INC., on behalf of itself and all others similarly
situated,

Plaintiff,

VS.

ABBOTT LABORATORIES,

Defendant.

LOUISIANA WHOLESALE DRUG
COMPANY, INC., on behalf of itself and all
others similarly situated,

Plaintiff,

VS.

ABBOTT LABORATORIES.

Defendant.

Case No. C07-5702 (CW)

*Related per November 19, 2007 Order to
Case No. C-04-1511 (CW)*

**PLAINTIFFS' OPPOSITION TO
ABBOTT'S SUPPLEMENTAL BRIEF IN
SUPPORT OF ITS OMNIBUS MOTION
TO DISMISS**

Date: **March 6, 2008**

Time: 2:00 p.m.

Courtroom: 2 (4th Floor)

Judge: Hon. Claudia Wilken

Case No. C 07-5985 CW

**PLAINTIFFS' OPPOSITION TO
ABBOTT'S SUPPLEMENTAL BRIEF IN
SUPPORT OF ITS OMNIBUS MOTION
TO DISMISS**

Date: March 6, 2008

Time: 2:00 p.m.

Courtroom: 2 (4th Floor)

Judge: Hon. Claudia Wilken

Case No. C 07-6010 CW

**PLAINTIFFS' OPPOSITION TO
ABBOTT'S SUPPLEMENTAL BRIEF IN
SUPPORT OF ITS OMNIBUS MOTION
TO DISMISS**

Date: March 6, 2008

Time: 2:00 p.m.

Courtroom: 2 (4th Floor)

Judge: Hon. Claudia Wilken

Case No. C 07-6118 CW

**PLAINTIFFS' OPPOSITION TO
ABBOTT'S SUPPLEMENTAL BRIEF IN
SUPPORT OF ITS OMNIBUS MOTION
TO DISMISS**

Date: March 6, 2008

Time: 2:00 p.m.

Courtroom: 2 (4th Floor)

Judge: Hon. Claudia Wilken

1 RITE AID CORPORATION; RITE AID
HDQTRS, CORP.,; JCG (PJC) USA, LLC;
2 MAXI DRUG, INC. d/b/a BROOKS
PHARMACY; ECKERD CORPORATION;
3 CVS PHARMACY, INC.; and CAREMARK,
L.L.C.,

4 Plaintiff,

5 vs.

6 ABBOTT LABORATORIES,

7 Defendant.
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) **Case No. C07-6120 (CW)**

) *Related per December 5, 2007 Order to*
) *Case No. C-04-1511 (CW)*

) **PLAINTIFFS' OPPOSITION TO**
) **ABBOTT'S SUPPLEMENTAL BRIEF IN**
) **SUPPORT OF ITS OMNIBUS MOTION**
) **TO DISMISS**

) Date: March 6, 2008

) Time: 2:00 p.m.

) Courtroom: 2 (4th Floor)

) Judge: Hon. Claudia Wilken

INTRODUCTION

Plaintiffs jointly submit this brief in response to issues raised by the Court at oral argument and by Abbott in its Supplemental Brief in Support of its Omnibus Motion to Dismiss. The fundamental distinction between this case and *Cascade Health Solutions v. PeaceHealth*, 515 F.3d 883 (9th Cir. 2008), is the one described in Plaintiffs' initial briefs: Plaintiffs in this case are complaining about high prices, not about low prices. Plaintiffs allege that Abbott used a massive price hike on Norvir to handicap its competitors' efforts to sell complementary products that compete with Abbott's combination pill, Kaletra. Abbott does not stand accused of violating the antitrust laws because it discounted one of its products -- there was no discount -- but because it massively raised the price it charged for Norvir.¹

Abbott argues that, because it did not raise its price of Kaletra (a product which contains the active ingredient in Norvir), this case is about the economic effect of low prices. Abbott concedes, as it must, that Plaintiffs can state a claim under the holding of *Cascade* by alleging that Abbott's pricing would prevent an equally efficient competitor from making a profit on additional sales after matching the imputed price of the competitive Abbott product.²

Sometime later in this litigation the Court may need to decide whether *Cascade* abrogated all other formulations of § 2 violations where pricing is involved -- whether, as Abbott contends, meeting that test is *necessary* to establish antitrust liability; or, as Plaintiffs contend, meeting it is

¹ Thinking that if it just says something often enough, it will become true, Abbott tells this Court (Br. at 2) that "there is no relevant distinction between this case and *Cascade*. Both cases involve a defendant offering a purportedly 'much lower price' . . ." This is neither what the complaints allege nor what the facts are. Abbott has taken a massive price increase on Norvir. It has left the Kaletra price unchanged. There is no lower price, let alone a much lower one.

² Plaintiffs in *Meijer* have clearly alleged that Abbott is liable even under this standard. All of the other plaintiffs likewise believe that this test can be satisfied, if necessary.

1 *sufficient*, but not necessary.³ Abbott inappropriately asks the Court to resolve this issue without
 2 regard to the unique circumstances of the pharmaceutical industry, and to resolve it *now* -- without
 3 the benefit of factual development and expert economic testimony. The Supreme Court has made
 4 clear that courts must “resolve antitrust claims on a case-by-case basis, focusing on the ‘particular
 5 facts disclosed by the record.’” *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 467
 6 (1992) (quoting *Maple Flooring Mfrs. Ass’n v. United States*, 268 U.S. 563, 579 (1925)). The
 7 economic effect of conduct can be determined only by a fact-intensive inquiry that is attuned to
 8 the “economic context,” including the “particular structure and circumstances of the industry at
 9 issue.” *Verizon Comm.’s Inc. v. Law Off. of C. V. Trinko*, 540 U.S. 398, 411 (2004).

11 ARGUMENT

12 As the Court suggested at oral argument, the particular structure and circumstances of the
 13 pharmaceutical industry must be considered in determining the application of *Cascade* to this
 14 case. *First, Cascade* assumes that a monopolist’s above-cost price *reductions* can and should be
 15 met with similar price cuts by its competitors, all to the good of consumers/purchasers. *See*
 16 *Cascade*, 515 F.3d at 896. But here Abbott’s pricing action was *dramatic* in that word’s root
 17 sense -- Abbott intended its 400% price increase to demonstrate to competitors that Abbott could
 18 and would raise Norvir’s price at any time, making it *futile for competitors in the boosted market*
 19 *to try to compete with Kaletra on price*. Abbott’s message-sending pricing said to its competitors,
 20 in effect, “If you try to compete against Kaletra on price, we will raise the Norvir price even
 21
 22

23 ³ For example, the court in *Kodak* approved a jury instruction that, “It is unlawful...for a
 24 monopolist to engage in conduct, including refusals to deal, *that unnecessarily excludes or*
 25 *handicaps competitors in order to maintain a monopoly.*” *Image Tech. Services, Inc. v. Eastman*
 26 *Kodak Co.*, 125 F.3d 1195, 1209 (9th Cir. 1997) (emphasis in original). *Kodak* in turn relied upon
 27 a very similar jury instruction that the Supreme Court approved in *Aspen Skiing, Co. v. Aspen*
 28 *Highlands Skiing Corp.*, 472 U.S. 585, 597 (1985) (“We are concerned with conduct which
 unnecessarily excludes or handicaps competitors. This is conduct which does not benefit
 consumers by making a better product or service available -- or in other ways -- and instead has
 the effect of impairing competition.”). In the circumstances alleged here, where a high price in
 one market is used to handicap competitors in another, these instructions provide a basis on which

1 higher.” Far from stimulating rivals to reduce their own prices, Abbott’s dramaturgical price
2 increase on Norvir had the intended effect of stifling price competition by its boosted rivals.

3 *Second*, Abbott’s increase in the price of Norvir, instead of a reduction in the price of
4 Kaletra, strategically used government regulations to eliminate rivals’ incentives to discount their
5 products. Intricate rules lay out the rebates that a drug company must pay on drugs dispensed to
6 Medicaid recipients and patients who have the benefit of ADAP (AIDS Drug Assistance
7 Programs) or similar government programs. For example, the government pricing rule known as
8 “Best Price,” *see* 42 U.S.C. § 1396r-8(c)(1)(A), (C), provides that, if a drug manufacturer makes a
9 price concession to any customer, it must cut price in the same amount to government programs.
10

11 Thus, if GSK or another Abbott competitor gave a rebate to private-sector customers to
12 offset the roughly \$13 per day increase in the price of Norvir, it would have to give the same
13 discount to government programs, even though Abbott could not impose its massive price hike on
14 the government. In other words, to remain competitive in the private-payer segment of the market,
15 GSK would have to absorb a \$13 price cut in that segment *plus* a \$13 price cut in the government
16 sector, where it was already price competitive. Thus, Abbott’s strategic decision to increase the
17 price of Norvir, rather than cut the price of Kaletra, would have required rivals seeking to match
18 Kaletra’s price to take a \$26 hit to gain sales on products previously priced at around \$16 --
19 something that no rational profit-maximizer would or could do.
20

21 Moreover, we believe that discovery will show that Abbott avoided the Best Price trap that
22 it created for its rivals by telling the federal pricing authorities that Kaletra is a single product
23 *whose price had not changed at all*. By raising Norvir’s price while *telling the federal agencies*
24 *that it had not reduced Kaletra’s price*, Abbott prevented its rivals from matching Kaletra’s price.
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28 a jury can find the defendant to have engaged in anti-competitive conduct just as occurred in
Kodak and Aspen Skiing.

1 By telling this Court the opposite -- that increasing Norvir's price was the equivalent of cutting
 2 Kaletra's -- Abbott seeks to avoid the legal consequences of that anticompetitive conduct.

3 The facts of this particular case and this particular industry refute Abbott's assertion that a
 4 price increase on Norvir was the equivalent of a price reduction on Kaletra. The latter would have
 5 stimulated the responsive price reductions that are the foundation of *Cascade*; the former
 6 forestalled them. At a minimum, the choice of the appropriate rule of antitrust liability here
 7 should await discovery on how Abbott's message-sending pricing and strategic use of government
 8 regulations in fact affected the incentives of market participants, and should be informed by
 9 briefing that rests on expert reports on the economic significance of those facts.

11 *Third*, this case involves differentiated products. The *Cascade* rule assumes that an
 12 "equally efficient producer" of the defendant's products could profitably sell the products if that
 13 competitor had the defendant's cost structure. *Cascade*, 502 F.3d at 914, 916.⁴ In assuming that
 14 an equally efficient competitor could achieve the same cost structure as the defendant, the
 15 *Cascade* test necessarily assumes that the competitor and defendant are producing the *same*
 16 products.⁵ The extent to which products are differentiated and the impact of that differentiation on
 17 the *Cascade* test are subject to factual development and expert testimony.

19 *Fourth*, the importance of research and development to the pharmaceutical industry may
 20 well affect the application of *Cascade* to the facts of this case. R&D costs in the pharmaceutical
 21 industry are large relative to other industries, creating substantial barriers to entry, and thus
 22

23 ⁴ The *Meijer* plaintiffs believe, as does Defendant, that the *Cascade* rule provides a bright
 24 line formula where the Defendant can be liable if an equally efficient competitor is prevented from
 25 making a profit on additional sales after matching the imputed price of the competitive Abbott
 product. Like all of the plaintiffs here, the *Meijer* plaintiffs disagree, however, that *Cascade* is the
 exclusive basis for antitrust liability in a Section 1 case involving pricing.

26 ⁵ Abbott is mistaken in contending that Plaintiffs' allegations regarding market definition
 27 are somehow inconsistent with the Court's observation that HIV drugs are not "fungible."
 28 Products need not be "fungible" in order to be in the same relevant market for analyzing a
 particular claim. They must be economic substitutes. *See, e.g., SmithKline Corp. v. Eli Lilly &*
Co., 575 F.2d 1056, 1063-65 (3d Cir. 1978) (finding that relevant product market consisted of
 approximately ten cephalosporin antibiotics and their generic equivalents).

Moreover, as discussed at oral argument, Abbott would have been required to spend millions of dollars on drug development and regulatory approval to sell lopinavir separately, something that it would be required to do for its conduct here to be “bundled discounting,” *i.e.*, “offering for a single price, two...goods that could be sold separately.” *Cascade*, 515 F.3d at 894. Similarly, *Cascade* had no occasion to consider whether the costs the defendant avoided by never in fact seeking to sell separately the second product in a bundle should be counted against the imputed price of that product. Clearly, expert economic testimony will be required to determine the effect of these unique aspects of R&D expenses on the *Cascade* analysis.

Abbott cannot avoid liability under the antitrust laws for its conduct because Plaintiffs, if necessary, can satisfy the *Cascade* test that Abbott says is the exclusive means of establishing antitrust liability. The instant motion should be denied because a decision by this Court on the question of whether satisfying the *Cascade* test is necessary or merely sufficient must await the development of a factual record, supported by expert analysis, that takes into account the unique aspects of the pharmaceutical industry and the particular facts of this case.

1 Dated: March 20, 2008

Respectfully submitted,

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